



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION III
1650 Arch Street
Philadelphia, Pennsylvania 19103-2029

JUL 11 2013

Ms. Kathryn Emery, Program Manager
Clean Water State Revolving Fund
Division of Water and Waste Management
West Virginia Department of Environmental Protection
601 57th Street
Charleston, West Virginia 25304

RE: FY 2012 CWSRF Program Evaluation Report

Dear Ms. Emery:

This Program Evaluation Report (PER) is the U.S. Environmental Protection Agency's (EPA) evaluation of the West Virginia Department of Environmental Protection's (WV DEP's) Clean Water State Revolving Fund (CWSRF) program. The PER summarizes our evaluation performed and identifies strengths and opportunities for improvement in the CWSRF program. The review covered the period July 1, 2011 through June 30, 2012. EPA conducted its on-site review from May 21 to 22, 2012.

No action items for WV DEP or EPA were identified in the FY2012 review.

Purpose and Scope

The FY 2012 annual review of West Virginia's CWSRF program was conducted in accordance with EPA's Interim Final Annual Review Guidance and Region III's Annual Review Plan. The annual review process includes EPA's consideration of WV DEP's Annual Report, evaluation of the State's program, coverage of items in the Annual Review Checklist, completion of the Project File Review Checklists, and issuance of this PER.

The purpose of the annual review is to assess the State's management of the program, including:

- Performance in achieving goals and objectives identified in the Intended Use Plans (IUPs) and the Annual Report;
- Compliance with grant agreements, operating agreement, and regulations;
- Financial status and performance of the Fund; and
- Resolution of audit findings and prior year PER recommendations.

Environmental Benefits

West Virginia's CWSRF program provides financial assistance to improve and maintain water quality throughout the State. The projects financed have been vital in protecting and improving water quality for drinking water, recreation, and natural habitat in the rivers, lakes, and streams throughout the State.

During FY 2012, West Virginia's CWSRF program financed 20 projects at wastewater treatment facilities totaling approximately \$84 million. Of the loans closed in 2012, \$18.6 million helped community wastewater systems achieve compliance with standards and \$5.5 million contributed to improving impaired water bodies. All of the projects contributed to the joint State/EPA mission of clean and safe water through the goals of eliminating sewage discharges from combined sewer overflows (CSOs) and from sanitary sewer overflows (SSOs); improving and protecting designated uses of water bodies; and achieving and maintaining CWA compliance.

Program Pace

The Loans to Funds Available (pace) indicator represents the percent of money available in the CWSRF program which has been committed in executed loans. The pace percentage recorded in CWNIMS was 96%, an increase from the 92% recorded in FY 2011.

Program Management

WV DEP continues to effectively manage the CWSRF program. For the effective management to continue, it is essential that the program be fully staffed with adequately trained employees. In addition, attendance at training courses continues to be included in the programmatic conditions to the capitalization grant. A minimum of two staff per SRF program should attend the national Council of Infrastructure Financing Authorities (CIFA), Regional All-States Meetings, Need Survey trainings and other SRF related training. These training opportunities are vital to WV DEP staying informed of the numerous changes and continuing developments in the national program.

Project Files Reviewed

EPA reviewed WV DEP's files for the following two projects:

- Weston closed on 8/6/2011 for \$741,679.00.
- Lubeck closed on 6/22/2012 for \$2,716,272.00.

The project files contained adequate and complete documentation. WV DEP conducts a full technical review and ensures the state environmental review process is completed. WV DEP performs a detailed financial capability review on all new loans and includes this documentation in the file. In addition, a WV DEP engineer or project manager periodically performs site visits during the construction phase of all projects. The project files include all inspection reports. Each loan document reviewed included dedicated sources of revenue for loan repayments, as required. WV DEP demonstrates continued overall sound management in its projects.

Compliance Requirements

EPA reviewed various documents provided by WV DEP to ensure compliance with all of the following requirements:

- Additional Subsidization
- Administrative Costs
- Annual Report
- Binding Commitments
- Clean Water National Information Management System
- CWSRF Benefits Reporting (CBR)
- Davis Bacon
- Federal Financial Reports
- Fee Income
- Green Project Reserve
- Payment Schedules
- State Match.

Cash Transactions Reviewed

EPA Region III staff tested four cash draws totaling \$12,725,482.00. This selection included a stratified sample selected by the Office of Management and Budget (OMB) that totaled \$12,305,096. Both sets of selected cash draws were found to be properly made for eligible CWSRF expenditures and were recorded in the WV DEP's accounting records. EPA followed the Standard Operating Procedure 1.5: Transaction Testing for Erroneous Payments for reviewing cash draws.

| Cash Transaction Testing EPA Region III draw selection | | |
|---|-------------|---------------|
| Grant Number | Date | Amount |
| CS-540001-10 | 3/21/2012 | \$259,145.00 |
| CS-540001-10 | 5/7/2012 | \$161,241.00 |

| Cash Transaction Testing OMB Stratified draw selection | | |
|---|-------------|-----------------|
| Grant Number | Date | Amount |
| CS-540001-11 | 6/12/2012 | \$11,209,928.00 |
| CS-540001-11 | 7/23/12 | \$1,095,168.00 |

Financial Health of the Fund

The financial health of the CWSRF program is good. All municipal loans are secured by system revenues and debt service reserves. Due to the absence of long-term debt, all funds deposited into the CWSRF are available to provide additional financial assistance to improve the State's water quality. To date there have been no municipal loan defaults, although some municipalities are delinquent with respect to deposits of loan reserves totaling \$559,341. The West Virginia Water Development Authority (WV WDA) actively monitors the delinquent communities on a monthly basis and when necessary, files a complaint with the Public Service Commission of West Virginia for resolution of the deficiencies.

Agricultural nonpoint source loans are jointly administered by the WV DEP, WV Soil Conservation Agency, USDA Natural Resource Conservation Service, local Soil Conservation Districts, and local banks. There is no risk of loss to WV DEP on these loans.

Onsite septic repair projects are administered by the WV Housing Development Fund and Safe Housing and Economic Development, Inc. as fiscal intermediaries. Two onsite loans totaling \$14,222 are uncollectible. There were 34 delinquent onsite loans as of June 30, 2012 totaling \$175,787. Prior to this, only two on-lot loan program loans have ever been written-off.

The CWSRF fund account has a strong cash flow. Financial management is sound; internal controls are in place; annual independent audits are performed; all funds are invested prudently; the Infrastructure Council and Public Service Commission perform detailed initial credit analysis and financial capability assessments on all municipal borrowers; WV DEP provides strong loan monitoring of borrowers during construction and loan repayments throughout the loan periods; state match is deposited in one lump sum when EPA grants are awarded; and, there is no debt.

As of June 30, 2012, net assets were \$599,500,763. That is 9.37% over FY 2011 net assets of \$548,120,760. Included in this amount is \$240,803,967 in loan principal and interest repayments and \$26,440,132 in investment earnings.

Return on Equity (ROE) is a measure of the growth of capital within the CWSRF. The ROE for the CWSRF decreased slightly to 0.43% in FY 2012, from 0.50% for FY 2011. The ROE rate is adequate considering WV DEP's CWSRF program generally offers loans to its borrowers with interest rates averaging less than one percent and interest rates on invested funds are near zero percent for the liquidity accounts.

WV DEP periodically performs long-term cash flow modeling and long-term planning of the CWSRF. The projections developed in FY 2010 have not yet been updated. EPA encourages WV DEP to update its modeled projections, and will assist them in this effort at WV DEP's request.

Based upon a review of the audited financial statements, annual report, and the financial management policies and procedures, EPA concludes that WV DEP continues to manage the CWSRF program in a manner that ensures the Fund will be available in perpetuity as a permanent source of financing of water quality infrastructure facilities.

Audits of the Fund

On September 27, 2012, WV DEP's independent certified public accountants (CPAs) issued the CWSRF's FY2012 audited financial statements. The audit report included a Single Program Audit pursuant to OMB Circular A-133. The CPAs expressed an unqualified opinion on these financial statements, indicating that they are fairly presented and conform to generally accepted accounting principles, (GAAP) as required. The audit report did not identify any deficiencies in the accounting systems or internal controls of the CWSRF, nor were there any findings or recommendations pertaining to noncompliance with Federal requirements.

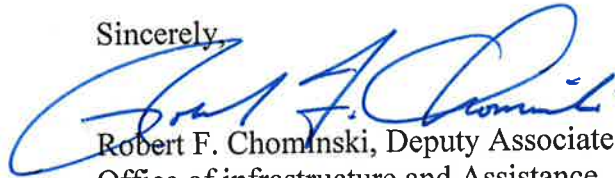
The FY 2012 WV State-wide Single Audit was also issued. The CWSRF was not audited as a major program in the State-wide audit. The Schedules of Expenditures of Federal Assistance (SEFA) included in the audit reported \$48,182,138 in federal funds was expended by the CWSRF program. This amount reconciles to the FY 2011 Federal Financial Reports (FFRs).

Prior Year Action Items

2010 There were no action items for WV DEP as a result of the FY 2011 annual review.

The attached Annual Review Checklist is an integral part of this PER. Should you have any questions, please contact Kimberly Scharl at 215-814-5428 or me at 215-814-2162.

Sincerely,



Robert F. Chominski, Deputy Associate Director
Office of Infrastructure and Assistance

